

## Message Text

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61/51

ACTION NEA-09

INFO OCT-01 ISO-00 ABF-01 TRSE-00 L-02 AID-05 IGA-01 EB-07

OMB-01 CIAE-00 INR-07 NSAE-00 /034 W

----- 026028

R 141200Z MAY 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 2737

LIMITED OFFICIAL USE SECTION 1 OF 2 COLOMBO 1549

C O R R E C T E D C O P Y - P A R A T W O - S U B P A R A ( I I )

E.O. 11652 N/A

TAGS: EAID, CE

SUBJ: U.S.-OWNED PL-480 RUPEES: COOREY LETTER

REF: STATE 107949; COLOMBO 1491

1. FOLLOWING IS TEXT OF LETTER OF MAY 14, 1975 TO THE  
AMBASSADOR FROM CHANDANA A. COOREY, SECRETARY, MINISTER  
OF FINWKCE:

2. BEGIN TEXT.

PAYMENT OF INTEREST ON U.S. GOVERNMENT  
RUPEE BALANCES

I HAVE TO INVITE YOUR REFERENCE TO THE STATEMENT ISSUED  
BY THE U.S. EMBASSY IN COLOMBO WHICH WAS PUBLISHED ON  
PAGE 1EE OF THE CEYLON DAILY NEWS ON MAY 9, 1975, REGARDING  
THE USE OF U.S. GOVERNMENT OWNED RUPEES IN DEPOSIT IN  
SRI LANKA - MORE PARTICULARLY TO THE FOLLOWING SENTENCE:  
"WITHDRAWALS ARE MADE ONLY TO MEET LEGITIMATE UNITED  
STATES GOVERNMENT EXPENDITURES IN SRI LANKA OR, AS WAS  
THE CASE RECENTLY, TO TRANSFER FUNDS TO ACCOUNTS BEARING THE  
HIGHEST PREVAILING RATE OF INTEREST LEGALLY EAILABLE IN  
SRI LANKA." REGARDING THE LATTER PURPOSE, I.E. TRANSFER OF  
FUNDS TO INTEREST BEARING ACCOUNTS, I WONDER WHETHER YOU  
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ARE AWARE OF CERTAIN ARRANGEMENTS WHICH WERE MADE IN MAY/

JUNE 1966 BETWEEN THE SRI LANKA TREASURY AND THE U.S. EMBASSY REGARDING THE DEPOSIT OF U.S. OWNED RUPEE FUNDS IN AN INTEREST BEARING ACCOUNT IN THE TREASURY. AS THESE ARRANGEMENTS APPEAR TO HAVE BEEN OVERLOOKED RECENTLY, I SET OUT BELOW FOR YOUR INFORMATION THE EVENTS WHICH LED TO THESE ARRANGEMENTS BEING MADE IN 1966 AND THE REASONS THEREFORE:

(I) IN FEBRUARY 1966, THE CENTRAL BANK BROUGHT TO THE NOTICE OF THE MINISTRY OF FINANCE THAT AT DISCUSSIONS WHICH HAD BEEN HELD WITH THE U.S. AUTHORITIES REGARDING THE NEW PL 480 AGREEMENT WHICH WAS UNDER NEGOTIATION AT THAT TIME, THE U.S. AUTHORITIES HAD INQUIRED WHETHER THEY COULD INVEST IN CEYLON GOVERNMENT TREASURY BILLS THE BALANCES LYING TO THEIR CREDIT IN THE CENTRAL BANK. THESE FUNDS, WHICH AMOUNTED AT THAT TIME TO ABOUT RS. 10 MILLION, REPRESENTED REPAYMENTS OF CAPITAL AND PAYMENTS OF INTEREST IN RESPECT OF IGA AND DLF LOANS AS WELL AS FUNDS UNDER PREVIOUS PL 480 PROGRAMME WHICH ARE AVAILABLE FOR U.S. GOVERNMENT USES. AT THE DISCUSSIONS WITH THE U.S. AUTHORITIES, THE CENTRAL BANK WAS MADE TO UNDERSTAND THAT IF THE INVESTMENT IN CEYLON GOVERNMENT TREASURY BILLS WAS NOT POSSIBLE, THE U.S. GOVERNMENT WOULD WANT TO DEPOSIT THEIR FUNDS IN INTEREST BEARING ACCOUNTS WITH COMMERCIAL BANKS IN CEYLON UNLESS THE CENTRAL BANK ITSELF WAS PREPARED TO PAY INTEREST ON THESE BALANCES;

(II) IT WAS NOTED IN THIS CONNECTION THAT THE CENTRAL BANK WHICH WAS HOLDING U.S. OWNED BALANCES IN A SPECIAL ACCOUNT IN ITS BOOKS HAD UP TO THAT TIME NOT BEEN CALLED UPON TO PAY INTEREST ON SUCH BALANCES AND THAT THERE WAS A POSSIBILITY THAT OTHER FOREIGN GOVERNMENTS AND CENTRAL BANKS WHICH ALSO MAINTAINED BALANCES WITH THE CENTRAL BANK OF CEYLON WOULD REQUEST SIMILAR TREATMENT. DOUBTS WERE ALSO EXPRESSED AS TO WHETHER INTEK Z X

MENT. DOUBTS WERE ALSO EXPRESSED AS TO WHETHER INTEREST ON BALANCES MAINTAINED IN THE CENTRAL BANK COULD BE PAID IN TERMS OF THE MONETARY LAW ACT AS THE ACT SPECIFICALLY DEBARRED THE CENTRAL BANK FROM PAYING INTEREST ON BALANCES OF THE SRI LANKA GOVERNMENT AND OF GOVERNMENT AGENCIES AND INSTITUTIONS;

(III) SINCE THE TRANSFER OF SUCH LARGE BALANCES TO LIMITED OFFICIAL USE

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COMMERCIAL BANKS WOULD HAVE INCREASED THE CREDIT BASE OF COMMERCIAL BANKS THEREBY CAUSING FURTHER PROBLEMS TO THE MONETARY AUTHORITIES, THE CENTRAL BANK DISCUSSED THE REQUEST FURTHER WITH THE U.S. AUTHORITIES AND DISSUADED THEM FROM PLACING THESE BALANCES IN COMMERCIAL BANKS ON THE UNDERSTANDING THAT SPECIAL ARRANGEMENTS WOULD BE MADE FOR SOME FORM OF INVESTMENT OPPORTUNITIES TO BE PROVIDED TO THE U.S. GOVERNMENT WHICH WOULD NOT AFFECT

ADVERSELY THE CREDIT CEILINGS AND MONEY SUPPLY IN THE COUNTRY;

(IV) ARRANGEMENTS WERE THEREFORE MADE TO OPEN A SPECIAL ACCOUNT IN THE TREASURY TO HOLD THESE FUNDS AS WELL AS ALL FUNDS GENERATED BY FUTURE PL 480 AGREEMENTS AND FOR THE TREASURY TO PAY INTEREST ON THE OUTSTANDING BALANCES IN THE TREASURY DEPOSIT ACCOUNT. IN THIS CONNECTION, THE U.S. EMBASSY INDICATED THAT THE U.S. GOVERNMENT WOULD BE PREPARED TO ACCEPT THE PAYMENT OF 1 1/2 PERCENT PER ANNUM AS THE INTEREST RATE TO BE APPLIED TO THE FOLLOWING U.S. OWNED BALANCES:-

(1) THE PRESENT AND FUTURE BALANCES REPRESENTING REPAYMENT OF PRINCIPAL AND PAYMENTS OF INTEREST ON ICA AND DLF LOANS;

(2) ALL RUPEES GENERATED UNDER THE PL 480 AGREEMENT, I.E. INCLUDING FUNDS EAR-MARKED FOR LOANS UNDER SECTION 104(E) AND (G) OF THE AGREEMENT UNTIL THEY ARE DISBURSED.

(V) THE 1966 AGREEMENT SIGNED BETWEEN THE GOVERNMENT OF CEYLON AND THE GOVERNMENT OF THE UNITED STATES ACCORDINGLY CONTAIN THE FOLLOWING CLAUSE:

"THE GOVERNMENT OF CEYLON AGREES THAT RUPEES RECEIVED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA UNDER THE AGREEMENT MAY BE DEPOSITED IN INTEREST BEARING ACCOUNTS IN BANKS IN CEYLON SELECTED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA UNLESS OTHER ARRANGEMENTS ARE MUTUALLY AGREED UPON BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CEYLON"

(IV) THE SPECIAL TREASURY DEPOSIT ACCOUNT PROCEDURE REFERRED TO ABOVE CONSTITUTED THE "OTHER ARRANGEMENTS MUTUALLY AGREED UPON". THIS UNDERSTANDING IS REFLECTED IN THE CORRESPONDENCE WHICH WAS EXCHANGED BETWEEN THE U.S. EMBASSY AND OUTSELVES. COPIES OF THIS CORRESPONDENCE ARE ATTACHED FOR YOUR INFORMATION  
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(VII) THESE ARRANGEMENTS HAVE CONTINUED UNCHANGED SINCE 1ST JULY, 1966.

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ACTION NEA-09

INFO OCT-01 ISO-00 ABF-01 TRSE-00 L-02 AID-05 IGA-01 EB-07

OMB-01 INR-07 /034 W

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R 141200Z MAY 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 2738

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2. IN TERMS OF THE ARRANGEMENTS MADE IN 1966, IT

HAS ALWAYS BEEN OUR UNDERSTANDING THAT WITHDRAWALS FROM THE SPECIAL TREASURY DEPOSIT ACCOUNT WOULD BE MADE TO MEET U.S. GOVERNMENT EXPENDITURES IN SRI LANKA AND THAT THERE WOULD BE NO TRANSFER OF FUNDS TO INTEREST BEARING ACCOUNTS IN COMMERCIAL BANKS. I AM SURE YOU WILL APPRECIATE IN THIS CONNECTION THAT THE REASONS WHICH NECESSITATED THE MAKING OF SPECIAL ARRANGEMENTS FOR PAYMENT OF INTEREST ON U.S. GOVERNMENT OWNED DEPOSITS BY THE TREASURY AND NOT BE COMMERCIAL BANKS ARE OF MUCH GREATER SIGNIFICANCE TODAY THAN IN 1966 ON ACCOUNT OF THE MONETARY EXPANSION WHICH HAS TAKEN PLACE SINCE THAT TIME AND THE SEVERE INFLATIONARY PRESSURES WHICH ARE NOW DEVELOPING IN OUR ECONOMY. THE AGREEMENT WHICH FINALISED IN JUNE 1974 BETWEEN OUR GOVERNMENTS ON MAINTENANCES OF VALUE AND OTHER ISSUES CONCERNING THE 3 ICA LOANS AND 4 DLF LOANS PROVIDE FOR SUBSTANTIAL SUMS TO BE MADE AVAILABLE TO THE U.S. GOVERNMENT OVER THE NEXT 5 YEARS AND IT IS VITALLY IMPORTANT FOR US THAT THESE LARGE BALANCES WHICH ARE WELL IN EXCESS OF THE AMOUNTS REQUIRED TO MEET LEGITIMATE U.S. GOVERNMENT EXPENDITURES IN SRI LANKA SHOULD NOT BE DIVERTED TO COMMERCIAL BANKS AND BE MADE THE BASIS OF FURTHER CREDIT CREATION TO THE DETRIMENT OF OUR ECONOMY. I WOULD, THEREFORE, EARNESTLY REQUEST YOU TO MAKE ARRANGEMENTS TO TRANSFER BACK TO THE TREASURY ANY FUNDS WHICH THE U.S. EMBASSY MAY HAVE WITHDRAWN FROM TIME TO LIMITED OFFICIAL USE

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TIME IN EXCESS OF ITS ACTUAL NEEDS AND WHICH ARE LYING IN INTEREST BEARING ACCOUNTS IN COMMERCIAL BANKS IN SRI LANKA. I NEED HARDLY MENTION THAT SUCH A STEP WOULD NOT ONLY BE IN CONFORMITY WITH THE UNDERSTANDING WHICH WE REACHED IN 1966, BUT WOULD ALSO ASSIST MY GOVERNMENT CONSIDERABLY IN ITS EFFORTS TO COMBAT INFLATION IN THE COUNTRY.

I WOULD BE MOST GRATEFUL FOR AN EARLY REPLY. END  
TEXT.

3. FIRST ATTACHMENT IS COPY OF LETTER OF MARCH 25, 1966  
FROM VOYCE J. MACK, AID AFFAIRS OFFICER, TO DAVID LOOS,  
DIRECTOR OF FOREIGN AID, GSL MINISTRY OF PLANNING AND  
ECONOMIC AFFAIRS.

BEGIN TEXT.

THIS LETTER IS WRITTEN REGARDING THE INTEREST ON THE  
APPROXIMATELY RS. 9 MILLION U.S. OWNED FUNDS WHICH WERE  
PREVIOUSLY BLOCKED.

WE WOULD LIKE TO GET YOUR CONFIRMATION THAT: (1) INTEREST  
ACCRUAL WILL BEGIN NOT LATER THAN APRIL 1, 1966 AND (2) IT  
WILL BE DEPOSITED TO THE U.S. ACCOUNT ON A QUARTERLY BASIS  
AT THE RATE AGREED UPON.

I SHALL APPRECIATE YOUR ADVISING ME OF YOUR ACCEPTANCE OF  
THIS UNDERSTANDING IN ORDER THAT I MIGHT ADVISE OUR  
WASHINGTON OFFICE ACCORDINGLY. END TEXT.

4. SECOND ATTACHMENT IS LETTER OF MAY 30, 1966 FROM  
S. VELAYUTHAM, ASSISTANT DIRECTOR, DEPARTMENT OF FOREIGN  
AID, TO DR VOYCE J. MACK.

BEGIN TEXT.

I REFER TO YOUR LETTER DATED MARCH 25, 1966, ADDRESSED  
TO MR. DAVID LOOS, REGARDING THE DEPOSITING OF U.S. OWNED  
RUPEE FUNDS IN AN INTEREST BEARING ACCOUNT IN THE  
TREASURY.

I CONFIRM THAT INTEREST WOULD BE PAID ON A QUARTERLY BASIS  
AT THE AGREED RATE COMMENCING FROM THE DATE ON WHICH THE  
U.S. SHARE OF PL 480 RUPEE FUNDS THAT HAD BEEN GENERATED  
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IN THE PAST ARE DEPOSITED IN THE TREASURY. I SHALL BE GLAD  
IF YOU WILL ARRANGE TO TRANSFER THE MONEY TO THE TREASURY  
FROM 1ST JUNE, 1966, IN WHICH EVENT INTEREST WILL BE PAID  
FROM THAT DATE.

IN VIEW OF THE DISCREPANCIES THAT EXIST IN REGARD TO THE  
AMOUNT AVAILABLE FOR U.S. USES BETWEEN THE RECORDS MAIN-  
TAINED AT OUR CENTRAL BANK AND U.S. EMBASSY, THE AMOUNT  
SHOWN AS BALANCE AVAILABLE FOR U.S. USES ACCORDING TO THE  
CENTRAL BANK RECORDS MAY BE TRANSFERRED TO THE INTEREST  
BEARING ACCOUNT, PENDING RECONCILIATION, AS SUGGESTED IN  
MR. BELLIDO'S LETTER OF APRIL 22, 1966, ADDRESSED TO  
MR. DAVID LOOS. END TEXT.

5. THIRD AND FOURTH ATTACHEMENTS ARE LETTERS OF JUNE 8

AND 15, 1966, TEXTS OF WHICH WERE TRANSMITTED  
COLOMBO 1491.

6. COPIES OF COOREY LETTER BEING POUCHED.

7. WE SHALL COMMENT AS SOON AS RESEARCH COMPLETED.  
VAN HOLLEN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TEXT, DEBT REPAYMENTS, DIPLOMATIC COMMUNICATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 14 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** woolflhd  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975COLOMB01549  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750170-0342  
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**Legacy Key:** link1975/newtext/t19750550/aaaabtfk.tel  
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**Office:** ACTION NEA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 107949, 75 COLOMBO 1491  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** woolflhd  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 19 AUG 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <19 AUG 2003 by ellisoob>; APPROVED <05 DEC 2003 by woolflhd>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** U.S.-OWNED PL-480 RUPEES: COOREY LETTER  
**TAGS:** EAID, CE, (COOREY, CHANDANA A)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006